

Message Text

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ACTION EUR-12

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INFO AMEMBASSY LONDON
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AMEMBASSY BRUSSELS
AMCONSUL ISTANBUL BY POUCH
AMCONSUL IZMIR BY POUCH
AMCONSUL ADANA BY POUCH

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E.O. 11652: NA
TAGS: EGEN, EFIN, PFOR, TU
SUBJECT: NEW FINANCE MINISTER BLAMES PREVIOUS GOVERNMENT FOR
TURKEY'S ECONOMIC ILLS; HINTS AT DESIRABILITY OF FOREIGN
RESCUE OPERATION

SUMMARY. IN PRESS CONFERENCE JUNE 26, FINANCE MINISTER BESIM
USTUNEL GAVE PREVIEW OF PRIME MINISTER ECEVIT'S ECONOMIC PROGRAM.
DESCRIBING ECONOMY AS IN DEEP TROUBLE, USTUNEL LAID BLAME ON
FORMER NATIONAL FRONT GOVERNMENT AND SIGNED INTERNATIONAL FINANCIAL
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COMMUNITY THAT ECEVIT HAD DRAWN UP AN ECONOMIC RECOVERY PROGRAM.
ECEVIT GOVERNMENT, HE SAID, WILL SEEK MEDIUM-TO-LONG-
TERM LOANS TO COVER FOREIGN PAYMENTS DEFICIT AND, INFACIT, HAS
ALREADY MADE CONTACTS IN BANKING CIRCLES ABROAD TO THIS END.
REFERREING TO \$750 MILLION LOAN JUST PUT TOGETHER BY SEVERAL
GOVERNMENTS FOR PORTUGAL, USTUNEL COMMENTED THAT HE BELIEVED
COUNTRIES WANTING TO SEE DEMOCRACY LIVE IN TURKEY MAY EXTEND

EVEN MORE ASSISTANCE TO ANKARA. END SUMMARY.

1. IN PRESS CONFERENCE JUNE 26, PRIME MINISTER ECEVIT'S FINANCE MINISTER BESIM USTUNEL DECLARED TURKISH ECONOMY TO BE IN DEEP TROUBLE, PUT BLAME SQUARELY ON FORMER NATIONAL FRONT GOVERNMENT OF SULEYMAN DEMIREL, AND ADVISED INTERNATIONAL FINANCIAL COMMUNITY OF MR ECEVIT'S INTENT TO INSTITUTE AN ECONOMIC RECOVERY PROGRAM (DESIGNED WITH AN EYE, NO DOUBT, TO RESTORING INTERNATIONAL LENDING TO TURKEY). USTUNEL CHARGED THAT OFFICIAL STATISTICS STUDIED BY ECEVIT'S STAFF HAD SHOWED THAT "GREAT TURKEY" PROGRAM OF DEMIREL GOVERNMENT HAD REDUCED NATIONAL TREASURY "BELOW ZERO" LEVEL AND PUSHED ECONOMY TO EDGE OF BANKRUPTCY, ECEVIT GOVERNMENT HAD TO TAKE URGENT MEASURES TO PULL COUNTRY OUT OF ITS ECONOMIC PLIGHT. IT HAS NECESSARY POLITICAL EFFECTIVENESS AND INTERNATIONAL AND DOMESTIC DEMOCRATIC SUPPORT TO ACCOMPLISH THE JOB, HE CLAIMED. (FURTHER DETAILS OF ECEVIT'S ECONOMIC RECOVERY PROGRAM WERE MADE KNOWN JUNE 28 WHEN PRIME MINISTER READ HIS GOVERNMENT'S PROGRAM TO PARLIAMENT AND ASKED FOR VOTE OF CONFIDENCE (SEPTTEL).

2. USTUNEL DESCRIBED DAMAGE TO TURKEY'S FINANCES OVER PERIOD OF DEMIREL GOVERNMENT AS EXCEEDING "ALL ESTIMATES". STATE ECONOMIC ENTERPRISES ARE RUNNING AGGREGATE DEFICIT AT ANNUAL RATE OF TL 41 BILLION (\$2.3 BILLION), WHILE LIRA AND FOREIGN EXCHANGE ARE LACKING TO PAY FOR TURKISH DEVELOPMENT NEEDS.

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3. ASKED HOW HE EXPECTED TO CLOSE FOREIGN EXCHANGE GAP, USTUNEL SAID THAT NEW GOVERNMENT WOULD NOT RELY MAINLY ON CONVERTIBLE LIRA DEPOSITS OR OTHER HIGH-INTEREST LOANS AS PAST GOVERNMENT HAD DONE, BUT INTENDED TO FIND MEDIUM AND LONG-TERM LOANS. IT ALSO PLANNED TO ADOPT AN EXPORT-ORIENTED ECONOMIC POLICY. ON THIS LAST POINT, HE ADDED, GOVERNMENT HAS ALREADY INSTURCTED MINISTRY OF CUSTOMS AND MONOPOLIES AND SOIL PRODUCTS OFFICE (TMO) TO EXPORT WHEAT AND TOBACCO STOCKS IMMEDIATELY. HE BLAMED FORMER GOVERNMENT FOR FAIL-INT TO EXPORT WHEAT WHEN WORLD PRICES WERE HIGHER THAN THEY ARE NOW.

4. ECEVIT GOVERNMENT MADE CONTACTS EVEN BEFORE COMING TO POWER WITH FOREIGN BANKS, USTUNEL SAID. HE WAS CONTINUING TO EXPLORE THESE BORROWING POSSIBILITIES. SOME "RED LIGHTS" SHOWN TO PREVIOUS GOVERNMENT CONCERNING AVAILABILITY OF NEW CRIDETS WOULD TURN GREEN, HE PREDICTED, BUT EVEN WITH SUCH RESOURCES, TURKEY WILL NOT FEEL BETTER QUICKLY. "WE ARE NOW LOOKING FOR BLOOD FOR THE PATIENT", USTUNEL SAID. FOLLOWING VOTE OF CONFIDENCE, MEASURES WOULD BE UNDERTAKEN WHICH WOULD IMPROVE COUNTRY'S ECONOMIC CONDITIONS OVER TIME.

5. THEN USTUNEL SUGGESTED THAT IF THE ECEVIT GOVERNMENT WAS

CONFIRMED, TURKEY MIGHT BE ASKING FOR HELP FROM OTHER GOVERNMENTS. USTUNEL OBSERVED THAT A NUMBER OF WESTERN COUNTRIES HAD OPENED A COMMON CREDIT FOR \$750 MILLION FOR PORTUGAL. SAME SITUATION, HE SAID, APPLIES TO TURKEY. "I STRONGLY BELIEVE THAT COUNTRIES WHICH WILL WANT REAL DEMOCRACY TO LIVE IN TURKEY MAY EXTEND EVEN MORE ASSISTANCE TO THIS COUNTRY THAN TO PORTUGAL." USTUNEL WENT ON TO SAY THAT BORROWING EXTERNALLY DOES NOT IMPLY DEPENDENCE ON OTHER COUNTRIES UNLESS POLITICAL CONDITIONS ARE ATTACHED TO LOAN. ECEVIT GOVERNMENT BELIEVES THAT IT WILL BE ABLE TO FIND MEDIUM-TO-LONG TERM CREDITS WITHOUT POLITICAL CONDITIONS AND THAT THESE CREDITS WILL BE USED TO MAKE TURKEY INCREASINGLY INDEPENDENT.

6. IN ANSWER TO QUESTION WHETHER GOVERNMENT CONTEMPLATED DEVALU-LIMITED OFFICIAL USE

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ATION, USTUNEL SAID THAT IT SEEMED TO HIM THAT WHEN RECOVERY PROGRAM GOT UNDER WAY, DEVALUATION WOULD NOT BE NECESSARY.

7. COMMENT. ALTHOUGH USTUNEL'S REMARKS WERE HIGHLY CRITICAL OF PREDECESSOR GOVERNMENT, THEY SEEMED TO SUPPORT CONTINUATION OF ITS POLICY OF HIGH GROWTH RATE REACHED THROUGH HIGH LEVEL OF IMPORTS FINANCED IN LARGE PART BY FOREIGN BORROWING. USTUNEL'S REMARKS GAVE FIRST PUBLIC INDICATION THAT A TURKISH GOVERNMENT WAS LOOKING TO POSSIBILITY OF AN INTERNATIONAL ASSISTANCE FOR TURKEY'S SEVERE BALANCE OF PAYMENTS PROBLEMS.
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